

US History

The Great Depression & The New Deal

Learning Target:

I can assess the impact the stock market crash and the nation's poor economy had on creating a Great Depression.

2. The Beginning of The Great Depression

- Public officials and business leaders insisted after the stock market crash that the setback was temporary and minor
- President Hoover – “We have now passed the worst and . . . shall rapidly recover.”

- The following events would make it very clear that the depression would not be minor or temporary

- The crisis in the banking industry, business failures, and massive unemployment in the early 1930s marked the beginning of **The Great Depression**

Causes of the Great Depression

1. The Banking Crisis

- Stock market crash only directly affected a small number of Americans
- It would indirectly affect millions of Americans through the banking crisis
- Bank failures led to complete loss of all money in that bank

Reasons For Bank Failures –

- A. Severe losses from the market crash
 - Banks make money by investing customer's money
 - When market crashed banks suffered severe losses

- B. Defaults on Loans
 - Many investors had lost their money in the crash
 - Most could not repay their loans to the banks
 - Led banks with little income and dwindling income
 - Many banks were forced to close

- C. Fear of Additional Failures
 - Customers became concerned of losing their life's savings if their bank closed
 - Depositors panicked and began trying to withdraw their savings
 - Led to even more bank failures as banks were already low on money

Bank Failure Statistics –

- 1930 – 1932 – More than 5000 banks failed throughout the country
- A 1930 collapse of one large NYC bank wiped out 400,000 people's savings

2. Business Failures

- Massive numbers of business failures happened throughout the nation
- More than 26,000 businesses went bankrupt in 1930
- Gross National Product –
 - 1929 - \$103 Billion
 - 1933 - \$56 Billion

Reasons for Business Failures –

1. The Banking Crisis
 - American business had already lost millions in the market crash
 - Now they were losing more in the banking crisis
2. Decreased Consumer Spending
 - Consumers became unwilling or unable to buy new products
 - Debt and fear of bank failures brought an end to purchasing on credit

3. Rising Unemployment

- Caused by the massive amounts of business failures
- People lost jobs as their companies simply ceased to exist
- 1932 – Unemployment reached 23.6%, up 3% from 3 years earlier

4. Global Depression

- Economic troubles in Europe and other parts of the world also contributed
- The global economy had suffered serious setbacks following World War I
 - Primarily due to massive war debts
- World trade rapidly declined during the 1920s & 1930s

The Global Depression's Impact on America –

- Foreign consumers were unable to purchase American goods
- American industries that relied on foreign consumers struggled and were left with large surpluses

America's Impact on The Global Depression –

- America placed high tariffs on imported goods to help struggling business
- Smoot-Hawley Tariff – Highest tariff in US history
- Protected American industry from inexpensive imports
- Accelerated the global depression by eliminating the American market for foreign manufacturers and industries

5. *The Income Gap & Credit (Consumer Debt)*

- Many historians have argued that unequal distribution of wealth was the central cause of the Great Depression

Examples of Unequal Distribution –

- 1923 – 1929 –
 - Disposable income of the wealthiest 1% of Americans increased by 75%
 - Disposable income for America as a whole increased by 9%

Credit –

- Confident in the nation's prosperity many Americans purchased goods on credit
- 1929 – Credit purchases reached \$7 billion dollars
- Government encouraged credit spending by keeping interest rates low
- Republican's pro-business policies believed this would lead to business growth

Problems With Easy Credit –

- Easy access to credit enabled people to buy things they couldn't afford
- Economic experts became concerned with such high credit spending
- High consumer debt in an economic downturn could cripple people

Economic Implications –

- The income gap & consumer debt meant poor Americans lacked the income to boost the economy
- Had workers been earning more some argue the depression wouldn't have occurred